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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 001329

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TAGS: ECON EFIN PGOV JA  
SUBJECT: INTERNAL AFFAIRS MINISTER RESIGNS OVER POSTAL ROW

REF: A. TOKYO 1106  
¶B. TOKYO 1091  
¶C. TOKYO 781

Classified By: CDA James P. Zumwalt for reasons 1.4 b/d.

Summary

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¶1. (C) Minister of Internal Affairs and Communications Kunio Hatoyama resigned June 12 after learning PM Aso would reappoint Yoshifumi Nishikawa as Japan Post Holdings (JPH) CEO despite Hatoyama's objections. Hatoyama has been a public critic of Nishikawa and JPH's attempt to sell off assets unrelated to its core business, but his intervention into Nishikawa's reappointment put him at odds with former PM Koizumi, Finance Minister Yosano, and the private sector and also forced PM Aso into a public choice among ruling Liberal Democratic Party (LDP) heavyweights. The incident shows how postal privatization continues to roil internal LDP politics. Media report Chief of the National Public Safety Commission, Tsutomu Sato, will fill in as MIC Minister. End summary.

MIC Minister Hatoyama Resigns

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¶2. (U) Minister of Internal Affairs and Communications (MIC) Kunio Hatoyama resigned June 12 following a public dispute among cabinet members over the reappointment of Japan Post Holdings Group CEO Yoshifumi Nishikawa. Hatoyama, who had publicly vowed to oust Nishikawa, submitted a letter of resignation after Prime Minister Aso told him he had decided to allow the CEO's reappointment.

¶3. (U) Hatoyama has been a vocal critic of Nishikawa and Japan Post Holding's (JPH) efforts to sell off "Kampo no Yado," a legacy hotel chain. Under the postal privatization laws passed in 2005, JPH is required to sell off the chain by ¶2012. However, after JPH concluded a contract with Orix Real Estate Corporation in late 2008, Hatoyama accused JPH of improper bidding practices and engaging in a "fire sale" (ref C). An independent inquiry subsequently found no material problems with JPH's bidding procedures.

¶4. (U) Media report PM Aso has asked Tsutomu Sato, Chief of the National Public Safety Commission, to serve as MIC

Minister. (Note: It is unclear if it is an interim appointment or will continue until the next general election, which must be held by mid-October. End note.)

Postal Privatization Continues to Roil LDP

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¶ 15. (C) Hatoyama has claimed his constituents strongly support his position on CEO Nishikawa. He told the media June 12 that "...I just can't tolerate someone who did something dirty" and "history will prove me right." A ruling Liberal Democratic Party (LDP) insider, however, told the Charge that a key business and electoral supporter of Hatoyama's had his eye on acquiring "Kampo no Yado" and pressured the lawmaker into stopping the hotel chain's sale to Orix. Hatoyama has lost in previous elections and is said to be vulnerable in the upcoming polls.

¶ 16. (C) Hatoyama's continued public criticism of Nishikawa put PM Aso on the horns of a dilemma. Hatoyama has a strong personal relationship with the Prime Minister, but postal privatization was the signature reform of former PM Koizumi, whom Aso wanted to avoid antagonizing. When Hatoyama's intervention became apparent, Koizumi reportedly called members of Japan Post Holding's personnel committee to urge they do what is best for Japan's economy (and not Hatoyama's political fortunes). Hatoyama's intervention also created problems for Minister of Finance Yosano, who will be required to vote on Nishikawa's reappointment during JPH's general shareholders' meeting June 29, as JPH is still wholly owned by the government.

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¶ 17. (C) Moreover, Hatoyama's opposition put him at odds with the private sector, as representatives of the country's two most powerful business groups endorsed Nishikawa during his nomination process. Some LDP members believed they could find a suitable private sector substitute for Nishikawa -- and thus keep PM Aso from having to choose between Hatoyama, Yosano, and Koizumi. However, several high-profile CEOs reportedly turned down the job. "Only a fool," one postal insider told Emboffs, would take a job contrary to the wishes of those organizations, "and fools don't become CEOs of major Japanese corporations."

Comment

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¶ 18. (C) Political observers are speculating about Hatoyama's next move and how his resignation might damage the Aso administration in the run-up to elections. Hatoyama is the brother of opposition Democratic Party of Japan Leader Yukio Hatoyama and there are already rumors in the press about their possible collaboration. Relations between the two brothers have been strained in the past, however. Kunio Hatoyama is known as a volatile and not particularly popular politician. His resignation shows how postal privatization and associated politics continue to roil the LDP and pit party leaders against one another.

ZUMWALT